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Doing business in Ontario, Canada



Ministry of Industry and Tourism
Ontario, Canada


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FOREWORD

This publication is intended primarily as an introductory guide to persons considering establishment of a business in the Province of Ontario, Canada.

Topics briefly represent fundamental points and preliminary information. Facts presented herein reflect laws and regulations prevailing at time to publication. **"Doing Business in Ontario"** is produced by the Ontario **Ministry of Industry and Tourism**, Toronto, Ontario, Canada - the government body responsible for industrial, trade and overall business development in the province.

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ONTARIO MINISTRY OF INDUSTRY AND TOURISM

The Ontario Ministry of Industry and Tourism is primarily responsible for the development and growth of business, manufacturing, industry and tourism in Ontario. It does this by maintaining contact with individuals, companies, business organizations and other government bodies on an on-going basis. Toronto head-office is supported by field offices throughout the province and international offices throughout the world.

Goals

- encourage economic growth and wealth creation in the Province of Ontario
- assist in removing impediments to the growth and development of free business enterprise in the Province of Ontario.
- be an objective advocate for the views of industry and commerce in the Ontario Government.

Objectives

- maintain and enhance the competitiveness of Ontario's manufacturing base
- assist in the improvement of the business investment climate in the Province of Ontario
- promote the creation of long term employment opportunities that utilize the skills and training of Ontarians
- assist the development of small business in the Province of Ontario
- increase tourism revenue in the Province of Ontario
- assist in the development of export opportunities for Ontario business
- encourage the development of new technology and business innovation in the Province of Ontario.

BUSINESS CLIMATE

ENCOURAGEMENT OF INDUSTRY

The encouragement of sound industrial growth is of prime importance to all levels of Canadian governments. An attractive investment climate is maintained and complemented by incentive measures geared to the needs of industry and to the requirements for a maximum rate of growth on the basis of available resources.

In general, the participation in Ontario's expanding economy is welcomed through licencing and joint venture arrangements and the establishment of new manufacturing facilities. Numerous and extensive investment opportunities exist in manufacturing and natural resource processing.

Ontario has placed increased emphasis on industrial production in recent years, particularly for export. Canada participated actively in tariff negotiations with a view to expanding the scope of industry from the domestic market into a broader international trading pattern. This was effected by obtaining reductions in other countries' tariffs and by Canada reducing its own tariffs on many imported items.

ECONOMIC GROWTH

Canada's Gross National Product reached \$232 billion in 1978 Ontario's Gross Provincial Product was estimated to be \$91 billion, or 39% of the Gross National Product.

In 1978, Ontario's estimated manufacturing shipments were \$64.6 billion or 50% per cent of all manufactured goods in Canada. The 1978 Ontario exports were 43 per cent of all Canada's exports including 83 per cent of the fully manufactured exports. Ontario has accounted for a major share of Canada's economic expansion throughout the 1960's and the early 1970's.

Canada's population has grown to 23.5 million and that of Ontario to 8.5 million.

ADVANTAGES OF LOCATING IN ONTARIO

Ontario is situated in the middle of Canada's ten provinces. A rich endowment of natural resources, an increasing population with a growing skilled labour force and expanding domestic and foreign markets provide a foundation for efficient manufacturing and processing operations. The proximity of the vast market potential of the United States is an added inducement to locating manufacturing facilities in Ontario. Ontario-made products enjoy the benefit of Canada's tariff preferences in various parts of the British Commonwealth. (See section on "Customs").

ENTRY AND REPATRIATION OF CAPITAL

Regulations affecting business and industry in this respect are exercised impartially for either domestic or foreign-controlled firms.

Investors in Ontario are free to liquidate investments at any time and transfer the proceeds out of the country. Similarly, profits, dividends or royalties may be remitted at will, subject to the appropriate withholding tax.

FOREIGN OWNERSHIP

Foreign investment is restricted in some areas such as finance, information, media transportation, including aviation and coastal shipping, commercial fishing and certain professional activities. Acquisitions of Canadian companies by foreign interests may be subject in some cases to the approval of the Foreign Investment Review Agency. However, the establishment of a new business by foreign interests or the establishment of an unrelated business to an existing business carried on in Canada by foreign interests is subject to the approval of the Agency.

While Canadian law does not require foreign firms to arrange Canadian financial participation, certain tax incentive measures are available to manufacturing and processing firms having a degree of Canadian ownership. (See section on "Taxes").

BUSINESS ORGANIZATION

FORMS OF BUSINESS ORGANIZATION

The following paragraphs deal briefly with the fundamentals of provincial and federal legislation affecting the commencement of business in Ontario. More detailed publications are available for study and discussions with relevant authorities can be arranged.

Legal services are readily available to the business person for guidance through prescribed incorporation or licensing procedures.

Four basic forms of business organization are provided by Canadian law. These are: 1. Proprietorship; 2. General partnership; 3. Limited partnership; 4. Corporation.

Non-residents are free to do business in any one of these forms, as well as in a branch-type operation.

SOLE PROPRIETORSHIP

An individual may enter into business in Ontario with minimum legal formalities, subject to licences that may apply to specific types of activities. The owner has sole responsibility for the operation and, in settlement of obligations, both his business assets and personal property may be attached.

If a sole proprietor elects to trade under a business name other than his own, or wishes to add such words as "and company" to his name, he must register with the Provincial Registrar of Partnerships.

PARTNERSHIPS

General partnerships and limited partnerships are available in Ontario. The principles relating to the rights and liabilities of partners are similar to those applying under the British and United States laws. The filing of a declaration signed by all partners, giving names, addresses, company name and capital contribution is required on registration with the *Provincial* Registrar of Partnerships.

Limited partners do not participate in the management of the firm, and are liable to the firm or its creditors only to the extent of their financial contribution.

On the other hand, general partners are not only jointly liable (equal shares) for any debts, but are jointly and severally liable (each partner liable for the full amount).

PUBLIC AND PRIVATE COMPANIES

In most cases under federal law, either a public or private company may be created. A public company is broader in scope than a private company, in that it may offer its capital shares or debentures for sale to the public, may have any number of shareholders, and its shares are transferable without restriction. A public company offering shares to the public must prepare a prospectus for distribution to the investing public and for filing with provincial and federal authorities.

A federal private company is limited to fifty shareholders, the transfer of shares is restricted, and it may not offer shares or debentures to the investing public.

INCORPORATION UNDER PROVINCIAL LAW

Under Ontario law no public or private company distinction exists. Corporations in Ontario fall into two categories, those which offer their securities to the public and those which do not. A factual test exists to determine whether or not a corporation falls into one or the other of these two categories. Ontario law deals differently with corporations which offer their securities to the public than with corporations which do not. The differences relate generally to shareholder's rights, the disclosure of public information, and whether or not the corporation may restrict the transfer of its shares. Corporations incorporated in Ontario are only required to have one shareholder. Corporations incorporated in Ontario which offer their securities to the public must have at least three directors, two of whom must not be officers or employees of the corporation or of any affiliate of the corporation.

In Ontario a corporation is incorporated upon the filing of articles of incorporation and paying the requisite fee. Incorporation federally is under the letters patent system of incorporation by which a charter is granted to any number of persons, not less than three, constituting them a "body corporate and politic". For corporations chartered under Ontario law, the Business Corporation Amendment Act 1972 requires that a majority of the members of the boards of directors be Canadian citizens ordinarily resident in Canada and further, that in any financial year a majority of directors' meetings must be held in Canada.

A company incorporated under Ontario laws must take out a licence in any other province in Canada in which it plans to do business or to own real property. An exception is the reciprocal arrangement between the provinces of

Ontario and Quebec where licencing requirements are waived for a company incorporated in the other province. Generally, a licence can be obtained by filing an application with the proper provincial authority and paying the prescribed fee.

EXTRA-PROVINCIAL COMPANIES

All provinces in Canada require that foreign or extra-provincial companies be registered or hold a licence when "carrying on a business" in their respective areas. The definition of "foreign" or "extra-provincial" company usually includes all companies other than those incorporated federally or under a statute of the province in question.

Whether or not it is advisable to do business as an extra-provincial company rather than to incorporate in Ontario will depend on the nature, extent, and duration of the anticipated business activities.

INCORPORATION UNDER FEDERAL LAW

Companies incorporated under The Canada Business Corporations Act have the right to carry on business in all provinces of Canada and do not require an extra-provincial licence in order to carry on business in any province of Canada. Such companies are subject, however, to provincial laws of general application in respect to holding land in the province and with respect to provincially imposed taxes. Ontario requires such companies to register and obtain a licence in order to hold land in the province.

BRANCH OF FOREIGN CORPORATION

Foreign corporations may conduct business in Ontario through a branch operation without local incorporation. They are treated in the same way as a company incorporated in another province of Canada and are required to register and obtain a licence in accordance with Ontario laws. Where the corporation wishes to trade in Ontario under its own name, the name must first be cleared with the Ministry of Consumer and Commercial Relations, prior to applying for a licence since Ontario law requires that the name must not be too identical to that of any existing corporation, individual or association so as to cause confusion.

The choice as to whether to form a subsidiary corporation or to operate as a branch is usually based upon tax considerations, expected profitability of the Ontario operation, dealings with the parent company and other factors. Legal and accounting assistance should be retained to guide business people towards the most suitable decision.

EXCHANGE CONTROL

Financial transactions involving commodities, goods or services and transfers of capital are not subject to exchange control regulations in Canada.

LABOUR

In Ontario, jurisdiction over labour and employment is a responsibility of the provincial government. However, some industries and undertakings of a national, international or interprovincial nature, such as transportation, communications, canals, pipelines, etc. are within federal jurisdiction and subject to the Canada Labour (Standards) Code.

EMPLOYMENT SERVICES

The Canada Manpower Division of the Federal Department of Manpower and Immigration provides a comprehensive public employment service to all Canadian employers and free placement services to the unemployed or those wishing to change jobs. Canada Manpower collects and publishes information on manpower supply and demand in all industries and occupations.

Canada Manpower provides additional services which include technical and financial assistance to employers in training, retraining and upgrading employee's skills.

In addition to these services, there are many private placement agencies offering employment services to both employers and employees.

EMPLOYMENT STANDARDS

The employment Standards Act establishes uniform minimum standards to be met by all employers throughout the Province. These are: (i) Termination of Employment; (ii) Hours of Work; (iii) Overtime Pay; (iv) Minimum Wage; (v) Equal Pay for Equal Work; (vi) Maternity Leave; (vii) Vacation with Pay; (viii) Wage Protection.

MINIMUM WAGE AND HOURS OF WORK

A five day, forty hour week is the general practice. Overtime pay after forty-four hours is required by law. The minimum hourly wage in Ontario is \$3.00 per hour, except for construction work for which the minimum hourly wage is \$3.25 per hour.

VACATION WITH PAY

The Employment Standards Act provides that every employee in Ontario is entitled to the minimum annual vacation of at least two weeks on completion of the first twelve months of employment with vacation pay of not less than 4 per cent of the total pay received in the year for which the vacation is given.

PUBLIC HOLIDAYS

Seven paid public holidays are mandatory, however, it is normal practice to provide eight paid holidays per year. Time and one-half rates must be paid if employees are required to work on a public holiday.

TRADE UNIONS

Freedom of association is guaranteed by legislation and employers are required to recognize and bargain with the trade union representing the majority of their employees. Wage rates, hours of work, fringe benefits and other aspects of working conditions including vacations and public holidays, are normally settled through collective bargaining.

WORKMEN'S COMPENSATION

The Workmen's Compensation Act provides for a fund contributed to by employers and administered by the Province. Payments are made to eligible workers to compensate for loss of income caused by accident arising out of or in the course of employment.

The amount of employers' contributions depends upon the hazards of the industry. Employers are assessed annually at the appropriate rate for the industry based on payroll records. Reporting payroll records is compulsory in the industrial sector.

UNEMPLOYMENT INSURANCE

The Unemployment Insurance Act provides that all employees in Canada under a contract of service must be insured against interruption of earnings due to shortage of work, disability and pregnancy, unless they are among those employees specifically made non-insurable. Contributions by employer and employee plus supplementary contributions by the Federal Government are paid into the insurance fund. The 1979 employee's premium is 1.35 per cent and the employers is 1.4 times the employee's premium. The maximum insurable earnings in 1979 is \$265 per week. Employers are responsible for maintaining the employee's employment records on which insurance benefits are based if unemployment occurs.

PENSION PLANS

The Canada Plan is designed to provide a basic retirement pension for all working Canadians. With few exceptions, participation is compulsory. Employers are required to deduct 1.8 per cent of employee's wages up to a maximum of \$190.80 per year. Employers are required to make a matching contribution. The total is then remitted to the Federal Department of National Revenue, along with income tax deductions. A self-employed person pays both employer and employee amounts - i.e. \$351.60. The Pension Benefits Act allows employers to establish a private pension plan for the benefit of their employees upon retirement.

HEALTH INSURANCE

The Ontario Health Insurance Plan requires an employer of 15 employees or more to provide for group participation; for 6-14 employees, the insurance plan is not mandatory but may be arranged. Individuals may be covered by the "pay direct" plans. Employers are required to make specified payroll deductions and remit these to the designated agency. Employer participation in the cost of the plan is not compulsory.

COST OF FRINGE BENEFITS

While it is difficult to calculate an actual cost to the employer for fringe benefits, since labour contracts vary, a recent unofficial survey placed the average at 33 per cent of total wages for manufacturing payrolls.

Fringe benefits include such items as vacations, public holidays, pension plans and group insurance protection.

EMPLOYMENT OF ALIENS

Although visitors who meet the broadly prescribed requirements as to health, character and means are freely admitted to Canada, those who wish to extend their stay beyond three months must register with an immigration officer on entry into the country.

While Canadian Citizenship is not a primary requirement for employment except for some restrictions, aliens must have landed immigrant status to accept employment or, for short term employment an employment visa. Anyone who is not a Canadian citizen or landed immigrant must have the employment visa (work permit) before being admitted to Canada to take employment and the visa will only be issued if a Canadian citizen or landed immigrant is not available for the position. Application for the visa should be made at the nearest Canadian immigration office before coming to Canada. While difficulty is unlikely in bringing in special crews or key personnel, all employers must apply to the Director, Immigration Branch, Department of Manpower and Immigration, Ottawa.

TAXES AFFECTING CORPORATIONS

FEDERAL CORPORATE INCOME TAX

Tax is levied by the federal government on a corporation resident in Canada based on its income for the taxation year derived from all sources inside or outside Canada, less certain deductions. Tax payments, as estimated by the corporation, are made in monthly instalments throughout the year to the Federal Department of National Revenue.

The federal corporate income tax rates vary depending on the nature and size of the company. (see Appendix A).

As an incentive to small businesses, a Canadian-controlled private corporation is granted a reduction in federal corporate income tax. (see Appendix A).

A federal-provincial tax agreement provides for a reduction of 10 percentage points in the federal corporate income tax rates to allow for provincial corporate tax.

INVESTMENT TAX CREDIT

This provision permits a deduction from federal tax in respect of the acquisition of qualified depreciable property to be used in manufacturing or processing, etc, with extra credits applying for research and development.

SPECIAL R & D CREDITS

These credits apply to both capital expenditures (machinery and equipment) and current expenditures (such as salaries of researchers).

Eligibility for the above credits is in the year in which the qualified expenditure is made, but the claim in a taxation year is limited to \$15,000 of federal tax otherwise payable, plus one-half of the federal tax in excess of \$15,000. Unused credit may be carried forward to reduce tax for up to five years.

ACCELERATED CAPITAL COST ALLOWANCES

Applicable to specified classes of assets, including machinery and equipment used in manufacturing or processing, certain vessels, and pollution control equipment.

TAX REDUCTION ON MANUFACTURING AND PROCESSING PROFITS

This provision reduces the federal corporate tax rate on Canadian manufacturing and processing profits from the general rate of 36% to 30%. For small businesses, the rate is reduced from the basic small business rate of 15% to 10% of manufacturing profits.

RESEARCH AND DEVELOPMENT MEASURES

Under the present income tax system 100% of such expenditures, whether current or capital, can be written off in the year they are made. Further, an additional deduction is available for 50% of the increase in R & D expenditures over the average level of the previous three years.

R & D also qualifies for the investment tax credit, and the November 16, 1978 Budget proposed to increase the credit, including higher rates for certain small business corporations and for R & D performed in designated regions.

SMALL BUSINESS DEDUCTIONS

The main purpose of this measure is to provide additional funds for small business expansion. For Canadian-controlled private corporations, the small business deduction reduces the federal tax rate on eligible amounts of active business income earned in Canada from 36% to 15%. The amount of active business income eligible for the tax reduction in a year is \$150,000, provided that cumulative retained business income is less than \$750,000. Once this limit is reached, the small business can continue to qualify for the low rate by paying dividends to shareholders.

EMPLOYMENT TAX CREDIT

This measure is a reduction in federal tax. Credits are available for employers who hire unemployed workers in addition to the firm's normal workforce. When the required conditions are met, credits are available at the hourly rates of \$2.00, \$1.75 or \$1.50; the higher rates are available in designated regions. Credits are payable for up to 40 hours per week and up to twelve months of employment. Employment credits unused in a taxation year may be carried forward to reduce tax in the following 5 years. The program is administered by the Canada Employment and Immigration Commission.

METRIC CONVERSION COST DEDUCTION

Costs incurred by a taxpayer to convert a measuring instrument, a machine or tool to metric units are deductible from income in the year incurred, and need not be capitalized and written-off over a number of years.

INCENTIVES FOR THE MINING, OIL AND GAS INDUSTRIES

The taxation system provides several measures related to the particular requirements and characteristics of these industries. For purposes of discussion, they are split into four groups: exploration and development expense deductions; capital cost allowances; earned depletion; and other measures.

SUBSIDIARIES OF FOREIGN COMPANIES

When a non-resident company is carrying on business in Ontario through a resident subsidiary operation, the total income of the subsidiary, whether earned in Canada or elsewhere, is subject to income tax in Canada. The subsidiary may claim a credit for taxes paid to a foreign country, as can any Canadian company. Methods of computing taxable income and the rate of the income tax is the same as for any other company resident in Canada except that the small business incentive is not available to foreign-controlled corporations.

BRANCH OPERATIONS

When a non-resident company is carrying on business in Ontario through a branch operation (without local incorporation), it is liable to income tax on that proportion of income that may reasonably be attributed to activities carried on in Canada through its Canadian branch. Satisfactory separate accounts must be kept to facilitate the determination of branch income. In addition, a 25 percent Federal Branch tax is levied on after-tax income. Certain allowances are made for new capital investment and working capital additions each year. This tax applies to the after-tax incomes which is retained in Canada or remitted to the foreign country.

DIVIDENDS & DIVIDENDS OF SUBSIDIARIES

Dividends, and payments in the nature of dividends, when paid or credited to non-residents (whether individuals or corporations) are subject to withholding tax as noted below. "Dividends" include amounts or values received by shareholders which by the Income Tax Act are deemed to be dividends, e.g. in reduction of capital.

Dividends paid to non-residents by a corporation which has the required degree of Canadian ownership defined in the Income Tax Act and Regulations and meets certain other requirements, are subject to 20 per cent withholding tax. On the other hand, dividends paid to non-residents by a corporation which has not the required degree of Canadian ownership or otherwise fails to meet requirements, are subject to 25 per cent withholding tax.

These rates vary according to each bilateral agreement held by Canada with 31 other countries. The Canadian tax treaty with the U.S. and with the U.K. for example, allows for a rate of 15 per cent.

A Canadian withholding tax on dividends, royalties and similar payments remitted to a parent company in a foreign country by a Canadian subsidiary; is levied at 15 per cent per annum. This rate is reduced to 10 per cent for companies in which Canadians hold not less than 25 per cent equity, and which have not less than 25 per cent Canadian directors, or at least 25 per cent of its stock is available to Canadians through listing on a Canadian stock exchange. This withholding tax is deductible for tax purposes by recipients in most countries.

PROVINCIAL CORPORATE INCOME TAX

Ontario levies a provincial corporate income tax of 14 per cent calculated on a basis similar to that used for federal tax.

An active Canadian-controlled private corporation which qualifies for the federal small business deduction is entitled to a provincial small business tax credit of 4 per cent of the income qualifying for the federal deduction.

Corporations engaged in manufacturing and processing, mining, farming, logging or fishing carried on in Canada are eligible for a provincial "manufacturing and processing profits credit" equal to 1% of profits from these operations earned in Ontario in excess of profits qualifying for the provincial small business tax credit.

In addition to provincial corporate income tax, Ontario levies an annual Capital Tax on corporations at the rate of 3/10 of 1 per cent of the paid-up capital of a corporation. Paid-up capital includes; capital stock, retained earnings, loans from other corporations and shareholders, and any other secured indebtedness of the corporation.

Reduced rates of capital tax equal to \$50 or \$100 annually are applicable to small businesses having no income or with paid-up capital not exceeding \$300,000.

Non-resident corporations carrying on business in Ontario through a branch operation (without local incorporation) must compute their paid-up capital as the greater of (a) branch profits capitalized at 8%, or (b) paid-up capital employed in Canada, unless the business of the corporation was carried on entirely in Canada.

SCIENTIFIC RESEARCH EXPENDITURE

First, a corporation eligible to deduct expenditure for a taxation year in respect of scientific research is permitted the option to choose to deduct any amount of such expenditure for the year and carry forward the unclaimed amount for deduction in subsequent years. Second, all R&D expenditures are eligible for the investment tax credit.

Third, an additional 50% write-off for current and capital R&D expenditures is now allowed to the extent that such expenditures exceed the average amount spent over the preceeding 3 years.

TAXES AFFECTING INDIVIDUALS

FEDERAL AND PROVINCIAL PERSONAL INCOME TAX

Both levels of government levy tax on the income from all sources inside or outside of Canada of an individual resident in Ontario, and on the income of a non-resident earned during the year in the province.

The federal government administers and collects the provincial personal income tax. Rules for the determination of whether a person is a resident, allocation of income to provinces etc., are outlined in the Federal Income Tax Regulations. The provincial personal income tax is about 44 per cent of the federal tax.

DEDUCTIONS

In addition to the personal exemptions of the taxpayer, deductions are permitted for dependents, medical expenses, charitable donations, union and professional dues, pension contributions, education, etc.

TAXES AFFECTING CORPORATIONS AND INDIVIDUALS

CAPITAL GAINS TAX

Corporations - One-half of net capital gains is included in income and taxed at normal corporation rates. One-half of net capital losses may be carried back one year and forward any number of years, being applied against net taxable capital gains, until absorbed.

Individuals - One-half of net capital gains is included in income and taxed at normal personal rate. One-half of net capital lossess up to \$1,000 are deductible from other income for the year. Any excess may be carried back one year first and then forward indefinitely to be used against capital gains or the annual \$1,000 of other income.

An individual's personal residence and up to one acre of land on which the house is situated are exempt.

MUNICIPAL TAXES

Municipalities in Ontario levy property and business taxes and licence fees. The property tax is based on the assessed value of land and buildings used for commercial/industrial or farm/residential purposes. Business tax is levied on a certain percentage of the assessed value of real property. A composite market value assessment is being introduced in some local municipalities.

LAND TRANSFER TAX

Any person or corporation, when acquiring land is subject to the payment of a Land Transfer Tax on the total amount of the transaction. Previously an increased rate of Land Transfer Tax was applied to persons or corporations defined by the Act to be non-resident; as of April 20, 1977, amendments to the Act were effected in the Ontario Budget. Instead of all land transferred to non-residents being taxed at the high 20 per cent rate of tax, now only agricultural and recreational land - restricted land - is taxed at this high rate. Specifically, any transfer to a non-resident individual or corporation of land that is "zoned" or "assessed" as commercial, industrial or residential is to be taxable at the normal low rate of land transfer tax.

FEDERAL SALES TAX

The Canadian government imposes a general sales tax of 12 per cent on the manufacturer's selling price of goods manufactured in Canada and on the duty-paid value of imported goods. This tax is payable at the manufacturer's level at the time of delivery to the purchaser, or by the importer at the time of importation. Numerous tax equalization measures are authorized to reduce inequities arising from manufacturers selling at different levels of distribution. Exemptions are allowed on certain raw materials, a wide range of production equipment and on some categories of consumable materials. Scientific research equipment purchased by manufacturers for use in the testing or development of new products or new processes is exempt from this tax.

The current budget provides a federal sales tax exemption for certain energy conservation equipment such as solar furnaces and heating panels, wind-powered generating equipment, and heat pumps. It is proposed that the Governor-in-Council be authorized to exempt additional energy-saving equipment, articles, and materials from sales tax. New items to be prescribed include additional insulation materials, wood-burning stoves and furnaces, automatic timer controls for electrical equipment and wind deflectors for trucks.

Manufacturers, including remanufacturers and rebuilders, of goods subject to federal sales tax must be licensed. Licensed manufacturers are permitted to buy or import materials for further manufacture free of sales tax, by quoting their licence number and certifying that these materials are to be used in, wrought into, or attached to taxable goods for sale.

FEDERAL EXCISE TAX

In addition to the federal sales tax, an excise tax is imposed on specific goods either manufactured in Canada or imported into Canada. The list includes jewellery, cigarettes, tobacco and alcoholic beverages.

Manufacturers of such goods must obtain a licence for excise tax purposes and may import free from excise tax, excisable goods that are to be incorporated into and form a constituent or component part of an article subject to excise tax, providing they quote their licence number and relevant certificate.

ONTARIO RETAIL SALES TAX

The Ontario government levies a direct sales tax of 7 per cent on a purchaser of goods that are purchased or imported for use or consumption in Ontario. The tax is levied on the basis of the selling price to the ultimate user or consumer. The 7% rate also applies to purchases of telecommunication services. A 10% rate applies to purchases of alcoholic beverages and prepared meals over \$6.00.

Retail vendors are required to obtain licences and maintain adequate records for sales. Some categories exempt from retail sales tax are food, books, fuels, farm implements, livestock, feed, goods consumed in manufacturing or production. Further tax exemptions are also in effect for some household and personal hygiene items such as soaps and detergents, toothpaste, deodorants. The numerous exceptions and the qualifications involved should be investigated.

RECIPROCAL TAX TREATIES

Canada has signed tax agreements with some countries whereby Canadian taxes on income earned in Canada by a foreign investor are normally available as full or partial credit against taxes payable thereon in the investor's country of residence. The question of tax liability on income earned abroad should be clarified with tax authorities in the investor's country of residence.

CANADIAN CUSTOMS

ADMINISTRATION

The Canadian Customs Act and Canadian Customs Tariff are administered by the Customs and Excise Division of the Federal Department of National Revenue. Customs officials are located at numerous ports of entry and in regional offices across Canada.

CUSTOMS TARIFF ON IMPORTS

The Canadian Customs Tariff contains schedules of over 2,000 tariff items under which goods and commodities might be imported into Canada. The classification of the tariff items is based on differing criteria such as the nature or the use of goods.

The rates of import duty applicable under each tariff item of the Customs Tariff are set for as follows:

- a) British Preferential Tariff - applicable to goods imported from most British Commonwealth countries.
- b) Most Favoured Nation Tariff - applicable to goods imported from countries who are members of GATT (General Agreement on Tariffs & Trade), or who have concluded bilateral trade agreements with Canada.
- c) General Preferential Tariff - duties will be reduced or eliminated on a most-favoured-nation basis or on a preferential basis under the General Preferential Tariff on selected goods imported from developing countries including tropical produce, handicrafts and light industry products.
- d) General Tariff - applicable to all goods and commodities not entitled to treatment under a), b) and c) above.

Generally speaking, but not always, the "Most Favoured Nation" duty rates are less than those provided under the General Tariff, and the British Preferential rates are generally less still. General Preferential applies to goods from developing nations.

TARIFF PREFERENCE FOR CANADIAN GOODS ABROAD

Canadian-made goods enjoy reciprocal treatment under the British Preferential Tariff outlined in (a) and (b) above.

RATES OF DUTY

The customs duties themselves in some cases are specific amounts per unit imported, but more frequently are an "ad valorem" duty, i.e. a stipulated percentage of the value of duty.

VALUATION FOR DUTY

The main principle of the provisions of the Customs Act is that the value for duty is the fair market value of the goods in the country of origin or the selling price whichever is higher. A number of modifying rules provide for circumstances where other factors must be given consideration in determining value for duty. An example is the method of calculating value for duty based on full factory (production) costs, plus a percentage advance for administration costs, selling costs and profit. This formula is applied to materials and components being imported for use in the process of manufacture or production of goods, but not usually sold in the same condition and for the same purpose.

TEMPORARY IMPORTS

Special concessions have been granted for a number of items which can be imported for a temporary period not exceeding one year to be used in production of goods, or for demonstration and evaluation purposes.

Most significant to newly established operations is the temporary entry of dies, moulds, patterns and related jigs and fixtures. Such equipment may be entered with duty levied on 1/60th of the fair market value for each month they remain in Canada. A minimum levy of \$25 for each importation is imposed.

DUTY "DRAWBACKS"

In relatively few cases, the importer is entitled to a refund by way of "drawback" of customs duties when the goods in question are subsequently put to specified uses in Canada for ultimate consumption in Canada. A more general provision is also made for drawbacks where goods imported into Canada are subsequently exported or are used in the manufacture in Canada of products which are subsequently exported.

MADE IN CANADA

For the purposes of the Customs Tariff, articles shall not be deemed to be of a class or kind made in Canada unless established Canadian industry is manufacturing at least 10 per cent of the normal Canadian consumption. In addition, each article must be determined to be of substantial Canadian content.

There are a number of items in the Customs Tariff authorizing a lower rate of duty for imported goods of a class or kind not made in Canada than for goods of a class or kind made in Canada.

PROCESSING OF CANADIAN GOODS ABROAD

Permission can be obtained to export Canadian goods for any process of manufacture and subsequent re-importation, with remission of duty on the Canadian Content.

MARKING OF IMPORTED GOODS

Any imported product that is packaged in a container and is sold to a consumer without being re-packaged is subject to the Consumer Packaging and Labelling Act. Reference should be made to this Act before consumer products are imported into Canada. Canada Customs also requires certain goods to be marked with the country of origin in English or French. Check with your local Customs office for further details.

MACHINERY AND EQUIPMENT IMPORTS

A considerable range of machinery and related equipment is not available from Canadian production and this may be imported under a remission order whereby the duty may be remitted. Applications may be made for remission of duty on times classified under Tariff item 42700-1 either before or not later than 90 days after the date of customs clearance.

ANTI-DUMPING DUTY

The Anti-Dumping Act provides for a dumping duty to be levied where the goods imported are deemed to be of a class or kind made or produced in Canada and a Canadian manufacturer of like goods successfully represents that injury to domestic industry will result from the importation of the goods at an unfair price.

GOODS IN BOND

The Customs law provides that goods may be imported and held "in bond" under the control of the Customs and Excise Division of the Federal Department of National Revenue. Customs duties and tax liabilities are postponed until the goods are withdrawn from bond.

GOVERNMENT ASSISTANCE TO BUSINESS

ONTARIO PROGRAMS

In order to stimulate economic activity, industrial expansion and provide employment opportunities in these municipalities, the Government of Ontario offers a comprehensive assistance program to qualifying companies wishing to locate new manufacturing plants or expand their operations in the Province.

FINANCIAL INCENTIVES

Ontario's financial programs are designed with the objective of encouraging industrial and economic development. Two types of loans are offered and administered by the Ontario Development Corporations:

Ontario Business Incentive Loans which are locational incentives designed to attract secondary manufacturing industries and supporting service industries to slower growth areas in the Province.

Term Loans which are available throughout the Province to qualifying companies which are unable to obtain sufficient financing from conventional lending institutions. Term loans are available for export support, industrial mortgages, pollution control equipment, etc.

Qualifying companies are those engaged in secondary manufacturing and service industries in support of manufacturing as opposed to those engaged in the primary industries such as mining, logging, fishing and agriculture.

Financial incentives to any industrial, business or commercial enterprise are not granted by municipal government.

PROVINCIAL ASSISTANCE

Small Business Development Corporations

Small Business Development Corporations (SBDCs) are set up to direct funds and provide business and managerial expertise to certain small businesses.

In order to stimulate investment in small businesses and to encourage the development of new enterprises in the province, the Government of Ontario offers financial incentives to qualifying individuals and corporations that invest in SBDCs.

Individual investors receive a grant equal to 30% of the amount paid for new issues of equity shares in an SBDC; corporate investors receive a tax credit equal to 30% of the amount paid. The tax credit is applied to reduce the Ontario Corporations Income Tax and may be carried forward indefinitely.

Small businesses that meet certain requirements and are primarily involved in manufacturing and processing, tourist activities or mineral exploration may qualify for SBDC investment.

Employment Development Fund

The fund, which is administered by the Employment Development Board, will encourage projects that:-

- make a long-term contribution to employment;
- foster the development of needed job skills;
- have the potential for significant export development or import replacement;
- involve the development of new products and processes through Canadian-based innovation;
- and,
- stimulate key industries and regional development

GOVERNMENT ASSISTANCE TO BUSINESS

ONTARIO PROGRAMS

In order to stimulate economic activity, enhance industrial growth and help maximize employment in Ontario, the Ministry of Industry and Tourism implements programs designed to provide assistance to business. The Ministry and its three Ontario Development Corporations provide technical, financial and advisory services to encourage private industry in starting or expanding manufacturing operations, developing domestic and export markets, and improving the quality and efficiency of tourism industry. Further information on specific needs for assistance, please refer to Ministry addresses listed in Appendix B.

FEDERAL PROGRAMS

The Department of Industry, Trade and Commerce (ITC) and other federal departments and agencies also provide a variety of assistance programs to suit the individual needs of industry. Inquiries from the private sector can be directed to **BUSINESS CENTRE of ITC** (Ottawa Local: 995-5771 - Long Distance: Dial '0' and ask for Zenith 03200).

GENERAL INFORMATION

PATENTS

The Canadian patent system is based on the same concept as that of most countries, differing in details only. Since foreign patents do not provide protection in Canada, foreign inventors should apply for Canadian patents to the Commissioner of Patents, 1 Place Du Portage, 68 Victoria St., Ottawa-Hull K1A 0C9.

The application must meet all the requirements of the Patent Act and the Patent Rules. For example, no patent may be allowed if the invention was published anywhere in the world more than two years before the application was filed in Canada and would be invalid if it were granted. The application will also be refused if the invention has been used publicly or sold in Canada more than two years before the application is filed.

A Canadian patent is valid in Canada for a 17 year period and no annual fee is required to keep it in force, providing the invention is worked in this country within 3 years of patenting. Many foreign principals enter the Canadian market by licence and royalty or joint venture agreements with existing Canadian companies. The Ontario Ministry of Industry and Tourism provides a service to bring interested parties together, details of which can be obtained from the nearest Ontario government office.

TRADE MARKS

The Trade Marks Act governs trade mark registration used in association with goods or services. Canada conforms to the provisions of the International Convention for the Protection of Industrial Property, which covers registration of foreign trade marks under special circumstances. Trade marks are valid for 15 years and are

renewable. Applications for registration should be sent to the Registrar of Trade Marks, Department of Consumer and Corporate Affairs, Ottawa, Ontario.

COPYRIGHTS

Canada adheres to both the Universal and International Copyright Conventions. Applications for registration of copyrights should be sent to the Federal Commissioner of Patents.

INDUSTRIAL DESIGNS

Industrial designs for the ornamentation of any article of manufacture may be registered in Canada. Applications for registration should be sent to the Federal Commissioner of Patents.

TRANSPORTATION

Ontario's extensive transportation facilities enable industry to obtain raw materials and distribute finished products at reasonable costs. From Ontario's central position in Canada, goods move easily to the eastern or western provinces, or southwards to the United States by road, rail, air and water. The Trans-Canada Highway system stretches over 4,000 miles from Halifax on the Atlantic to Vancouver on the Pacific, and the middle 1,450 miles span Ontario. The St. Lawrence Seaway/Great Lakes Waterway provides a shipping route from the Atlantic Ocean some 2,300 miles inland to the head of Lake Superior, with numerous ports of discharge enroute. Railways, steamship companies and major ports have cooperated in development of modern container-handling facilities for overseas shipments. Canada's two major transcontinental railway systems service the entire country and provide direct connections at border points with United States railways.

Freight rate schedules to all points in the U.S.A. and Mexico are available from Ontario points of origin. Two major Canadian airlines form the nucleus of Canada's air freight and passenger service, supplemented by a number of smaller domestic air carriers. Worldwide air freight and passenger service is available from Ontario's Toronto International Airport. The truck transportation industry is highly organized and intercity, interprovincial and international cargo transportation is readily available.

UTILITIES

Supplies of electrical power, natural gas and oil are available to Ontario industry. An Ontario government agency controls the provision, distribution and sale of electric power at minimum cost.

BANKS

Ontario's communities are well served through the branch system of Canada's major chartered banks, which extends into all provinces and many foreign countries. A complete range of banking services is available to the business person from the nearest branch of his selected bank.

The Bank of Canada is the federal regulatory institution, which controls bank reserves, interest rates and foreign exchange for all banking operations.

PRODUCT STANDARDS

The Canadian Standards Association (CSA) has the responsibility for establishing standards on products, processes and procedures. For example, all electrical apparatus and equipment must be CSA certified.

The Standards Branch of the Department of Consumer and Corporate Affairs, Ottawa, is responsible for the testing and approval of weighing and measuring devices.

The Food and Drug Directorate of the Federal Department of National Health and Welfare, Ottawa, is responsible for all phases of the food, drug, cosmetic and medical devices fields. Particular emphasis is placed on the control of plant facilities, ingredients, formulae, packaging, labelling and advertising.

REFERENCE

BUSINESS CLIMATE

STATISTICS CANADA
ONTARIO MINISTRY OF TREASURY & ECONOMICS

BUSINESS ORGANIZATION

ONTARIO MINISTRY OF CONSUMER & COMMERCIAL
RELATIONS

LABOUR

ONTARIO MINISTRY OF LABOUR

TAXES

REVENUE CANADA, TAXATION
ONTARIO MINISTRY OF REVENUE

CANADIAN CUSTOMS DUTIES

REVENUE CANADA, CUSTOMS & EXCISE
CANADIAN IMPERIAL BANK OF COMMERCE

GOVERNMENT ASSISTANCE TO BUSINESS

BOARD OF ECONOMIC DEVELOPMENT MINISTERS
ONTARIO DEVELOPMENT CORPORATION

APPENDIX A

COMBINED FEDERAL-PROVINCIAL CORPORATE TAX RATES--PROVINCE OF ONTARIO

The combined federal-provincial tax rates applicable in Ontario listed here reflect the Ontario corporate income tax rate of 14 per cent and the Federal abatement of 10 per cent as explained on page 14.

- (1) For all corporations except those eligible for the small-business incentive.

	On taxable income from manufacturing and <u>processing operations</u>	On taxable income from all other <u>operations</u>
1977	43	50

- (2) For corporations eligible for the small-business incentive. (Basically private corporations controlled by Canadian residents).

1977	20	25
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Note: Canadian-controlled private corporations have the benefit of the low rates of the first \$150,000 of net income earned in any one year to a limit of \$750,000 of taxable income accumulated after the 1971 taxation year.

Eligibility for the special low rate of tax can be maintained by the payment of taxable dividends.

APPENDIX B

ONTARIO MINISTRY OF
INDUSTRY AND TOURISM

900 Bay Street, Hearst Block
Queen's Park, Toronto
Ontario, Canada M7A 2E1

ONTARIO FIELD OFFICES

CENTRAL-EAST ONTARIO

Area office in Willowdale (Fairview Mall). District offices in Orillia and Peterborough.

WILLOWDALE

Suite 480
5 Fairview Mall Dr.
Willowdale M2J 2Z1
Telephone: (416) 491-7680

ORILLIA

Sterling Trust Bldg.
2nd Floor
73 Mississauga St., E.
Box 488, Orillia L3V 6K2
Telephone: (705) 325-1363

PETERBOROUGH

139 George St., N.
Peterborough K9J 3G6
Telephone: (705) 742-3459

CENTRAL-WEST ONTARIO

Area office in Kitchener. District office in St.
Catharines

KITCHENER

305 King St., W.
Kitchener N2G 1B9
Telephone: (519) 744-6391

ST. CATHARINES

Suite 401
15 Church St.
St. Catharines
Telephone: (416) 684-2345

EASTERN ONTARIO

Area office in Ottawa. District offices in Brockville and
Kingston.

OTTAWA

220 Laurier Ave., W.
Suite 900
Ottawa K1P 5Z9
Telephone: (613) 237-6280

BROCKVILLE

143 Parkedale Ave.
Brockville K6V 6B2
Telephone: (613) 342-5522

KINGSTON

Princess Anne Bldg., Suite 401
797 Princess St.
Kingston K7L 1G1
Telephone: (613) 546-0174

NORTHERN ONTARIO

Area office in Sudbury. District offices in Timmins,
Sault Ste. Marie and Thunder Bay.

SUDBURY

767 Barrydowne Rd.
Sudbury P3A 3T6
Telephone: (705)560-1330

TIMMINS

273 Third Ave.
Suite 200
Timmins P4N 1E2
Telephone: (705) 264-5393

SAULT STE. MARIE

120 Huron St.
P.O. Box 1196
Sault Ste. Marie P6A 5N7
Telephone: (705) 253-1103

THUNDER BAY

Ontario Government Bldg.
435 James St., S.
P.O. Box 5000
Thunder Bay P7C 5G6
Telephone: (807) 475-1325

SOUTHWESTERN ONTARIO

Area office in London. District offices in Owen Sound and Windsor.

LONDON

195 Dufferin Ave.
Suite 607
London N6A 1K7
Telephone: (519) 433-8105

OWEN SOUND

Suite 104, Nor-Towne Plaza
1131 Second Ave., E.
Owen Sound N4K 2J1
Telephone: (519) 376-3875

WINDSOR

250 Windsor Ave., Room 227
Windsor N9A 6V9
Telephone: (519) 252-3475

ONTARIO INTERNATIONAL OFFICES

Chicago

Government of Ontario/Canada
208 South LaSalle St., Suite 1816
Chicago, Illinois 60604, U.S.A.
Telephone: (312)782-8688
Telex: 206084

Paris

Government of Ontario/Canada
19 Avenue Montaigne
75008 Paris, France
Telephone: 720-61-37
Telex: 42-650865F ONTPAR

Los Angeles

Government of Ontario/Canada
606 South Olive St., Suite 720
Los Angeles, California 90014, U.S.A.
Telephone: (213)627-3531
Telex: 181006

Tokyo

Government of Ontario/Canada
World Trade Centre Building
Room 1219, 4-1 Hamamatsu-Cho
2 - Chome, Minato-ku
Tokyo 105, Japan
Telephone: 436-4355
Cable Address: ONTARITOK, TOKYO
Telex: J27145 ONTTOK

New York

Government of Ontario/Canada
1251 Avenue of the Americas, Suite 1080
New York, New York 10020, U.S.A.
Telephone: (212)247-2744
Telex: 640501

Frankfurt

Government of Ontario/Canada
Bockenheimer Landstrasse 51/53
6000 Frankfurt/Main Germany
Telephone: 72-80-44
Cable Address: ONTARIFRANK
FRANKFURT
Telex: 416176 Onfra

London, England

Government of Ontario/Canada
Ontario House
Charles II Street
London, SW1Y 4QS, England
Telephone: 01-930-6404
Cable Address: ONTARILON, LONDON
Telex: 51-262517

